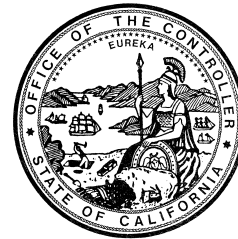


# News Release



***Controller of the State of California - Kathleen Connell***

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**FOR IMMEDIATE RELEASE**

## ***CONTROLLER'S AUDIT CHECKUP IDENTIFIES MEDI-CAL "ILLS" TOTALING \$457 MILLION***

***Failure to Implement Recommendations Leaves Funds Uncollected, Savings Unrealized***

**SACRAMENTO**, Dec. 13 -- A follow-up report by State Controller Kathleen Connell found that Medi-Cal's failure to implement recommendations from an audit issued in March of this year is continuing to cost taxpayers nearly a half billion dollars in potential savings. Furthermore, a series of audits by the State Controller's Office found evidence of continued and systematic multi-million dollar overbilling by certain non-institutional Medi-Cal providers -- some with links to Medi-Cal pharmacies which were the subject of a Controller's audit issued in June.

"This is a bitter pill for taxpayers to have to swallow," said Connell. "Medi-Cal has not recovered one dime of the \$457 million in potential savings and cost recoveries that we identified eight months ago. Every dollar we overpay in the Medi-Cal program is a dollar we cannot spend to provide care to Californians who truly need it -- that is why I feel such a sense of urgency about taking prompt action."

Among other findings, the March 1996 audit identified non-institutional providers as being especially high-risk for potential overbilling, and offered specific accounting changes and pre-payment safeguards to recover an estimated \$230 million, and realize future ongoing savings of \$227 million annually. In the ensuing eight months, the Controller's office referred audits of 15 non-institutional providers -- including pharmacies, medical labs and a podiatrist -- to the Attorney General's Office. These 15 represent more than \$30 million in potential Medi-Cal overpayments. Meanwhile, regular payments to these types of providers continue to go unaudited by DHS.

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*SCO Medi-Cal Checkup/2-2-2*

"These are expensive lessons learned by Medi-Cal. Unfortunately, taxpayers are picking up the tab," said Connell. "While DHS has worked with us and made an effort to correct some system problems and we do see some progress, millions of dollars continue to be squandered."

The Controller cited fiscal pressures connected with welfare reform as another reason her office conducted the audit "check-up." She said: "With the state facing untold financial obligations with welfare reform, it is critical that we stop any leakage from the system."

This latest Medi-Cal report followed up on several problem areas outlined in the audit Connell released in March:

- \* ***Unaudited Payments to Non-Institutional Providers*** -- DHS did not increase efforts to conduct its own audits to recover huge overbilled amounts by non-institutional providers. This, despite the fact that the Controller's office referred 15 providers to the Attorney General's Office -- which resulted in ceased operation for almost all -- preventing millions of dollars in future improper payments.

- \* ***\$230 Million In Uncollected Drug Rebates*** -- Despite SCO's recommendations, DHS has not collected over \$230 million in rebates from pharmaceutical companies. In addition, future annual savings of \$75 million could be achieved from more effective collection procedures.

- \* ***Underutilized Use of Public Paratransit*** -- Medi-Cal pays almost \$40 million to private van companies used for non-emergency ground transportation (\$22.50 per ride). At least \$10 million could be saved annually if DHS started using available public paratransit services when possible (less than \$3.00 per ride).

- \* ***Lack of Cross-Checking For Duplicate Payments*** -- Currently, no system exists to make sure Medi-Cal payments aren't made to a provider that has billed more than one state agency for the same service, a problem disclosed by the March audit. Instead of creating such a system, DHS's only action to date consists of sending memos to affected state agencies outlining a non-specific approach to resolve this problem.

- \* ***Excessive Drug Charges*** -- Medi-Cal's reimbursement rate for pharmaceuticals is 5% higher than in most states and other high volume purchasers of medications. Approximately \$127 million could be saved annually if DHS succeeds in getting legislation passed to lower this rate.

A separate series of reviews of non-institutional providers, completed within the 8-month period, resulted in the Controller's office withholding more than \$3.2 million in payments, and identified another \$30 million in potential overpayments. In the case of one provider, once the SCO initiated action to withhold payments, consecutive weekly billings from the clinic decreased from \$349,070 to \$81,802 to \$2.

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Connell added, "Our audits prove that there is a great deal of abuse going on with non-institutional Medi-Cal providers. We suspect the problem is systematic because many of these same laboratories are linked to potentially-fraudulent facilities we identified in a previous review of Long Beach pharmacies. Our office will continue to conduct audits, but the best solution is to have effective controls to spot over-billing before any payment is made. I am committed to continuing our work with Medi-Cal to implement the necessary changes to improve the system's fiscal effectiveness. We plan to come back in July of next year to review progress again; our hope is that we will then finally be able to give Medi-Cal a clean bill of fiscal health."

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*For complete audit reports, contact Byron Tucker or Linda Carlson at 310/342-5678 or 916/445-2636.*